

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
DECEMBER 31, 2010 AND 2009

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NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2010 and 2009

Our discussion and analysis of the financial performance of Newman Regional Health provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2010 and 2009. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net assets decreased by \$911,666 or 2.6 percent in 2010 as compared to a decrease of \$1,337,036 or 3.7 percent in 2009.

The Hospital reported an operating loss of \$673,122 in 2010. This compares to an operating loss of \$779,179 and \$1,355,341 in 2009 and 2008, respectively.

Using these financial statements

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenue, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific operating purposes by contributors, grantors and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources including all restricted and unrestricted assets and all liabilities using the accrual basis of accounting in a way that helps answer this question. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets - the difference between assets and liabilities may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2010 and 2009

Assets, liabilities and net assets

The Hospital's balance sheets as of the end of each of the last three years are summarized as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current assets	\$ 17,475,951	\$ 16,137,930	\$ 15,692,172
Assets limited as to use	6,970,674	7,602,155	7,561,859
Capital assets, net	26,101,406	29,128,070	32,211,694
Other assets	<u>460,719</u>	<u>267,301</u>	<u>239,467</u>
Total assets	<u>51,008,750</u>	<u>53,135,456</u>	<u>55,705,192</u>
Liabilities			
Current liabilities	4,634,501	4,384,232	4,644,410
Long-term debt obligations	<u>12,587,691</u>	<u>14,053,000</u>	<u>15,025,522</u>
Total liabilities	<u>17,222,192</u>	<u>18,437,232</u>	<u>19,669,932</u>
Net assets	<u>\$ 33,786,558</u>	<u>\$ 34,698,224</u>	<u>\$ 36,035,260</u>

We continue to operate in a challenging healthcare environment on both a local and national level. Despite these challenges we have strived to maintain a strong and liquid balance sheet. Our liquidity position when measured by the ratio of current assets to current liabilities was 3.8 in 2010, 3.7 in 2009, and 3.4 in 2008. Current assets increased by \$1,338,021 in 2010 and increased by \$445,758 in 2009, both as compared with the prior year. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents has increased each of the past two years and has ranged from \$8.18 million in 2008 to \$10.14 million in 2010. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue invested in net accounts receivable was 48 days in 2010, 47 days in 2009, and 43 days in 2008. The other notable change in our balance sheet for the periods presented above is the decline in capital assets, net. This decline is a result of our annual depreciation provision exceeding expenditures for replacement of capital assets and equipment. We expect this trend to continue in the near future as our budget for capital acquisitions is expected to run below our expected annual depreciation provision.

Total liabilities declined in each of the years presented as compared with the previous year. The decline is due primarily to the change in long-term debt obligations which have declined as scheduled debt retirements have exceeded new debt obligations entered into by the Hospital. In March 2010, the Hospital advance refunded its previously outstanding bonds through the issuance of additional debt by the Lyon County Public Building Commission. We entered into this transaction for the purpose of lowering our overall borrowing costs.

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2010 and 2009

Operating results and changes in net assets

In 2010, the Hospital's net assets decreased by \$911,666, or 2.6 percent as shown in the following table. This decrease is made up of very different components. The Hospital's operating results and changes in net assets for each of the last three years are summarized as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues			
Net patient service revenue	\$ 45,077,862	\$ 44,208,327	\$ 46,089,733
Other operating revenue	<u>2,310,575</u>	<u>2,496,656</u>	<u>2,449,447</u>
Total operating revenue	47,388,437	46,704,983	48,539,180
Operating expenses			
Salaries and wages	21,842,854	20,979,759	21,995,534
Employee benefits	6,059,408	5,516,056	5,519,427
Supplies and other expenses	16,405,566	16,836,075	17,982,989
Depreciation and amortization	<u>3,753,732</u>	<u>4,152,272</u>	<u>4,396,571</u>
Total operating expenses	48,061,560	47,484,162	49,894,521
Operating loss	(673,123)	(779,179)	(1,355,341)
Interest expense	(591,902)	(872,412)	(927,013)
Other nonoperating revenues			
(expenses)	303,366	312,318	581,245
Capital grants and contributions	49,993	2,237	18,027
Transfers	<u> </u>	<u> </u>	<u>(4,612)</u>
Decrease in net assets	<u>\$ (911,666)</u>	<u>\$ (1,337,036)</u>	<u>\$ (1,687,694)</u>

The first component of the overall change in the Hospital's net assets is the operating loss - generally, the difference between operating revenues and the expenses incurred to perform those services. The Hospital reported a decline in our operating loss of \$106,056 in 2010 as compared with 2009. This follows a decline in the loss reported of \$576,162 in 2009 as compared with 2008. The 2008 loss was \$2,247,610 greater than what we reported in 2007. The operating performance of our Hospital is influenced by utilization of services that we provide, which is affected by the health of our local economy, availability of physician services in our community, and patient access to health insurance coverage. We are also affected by payment adjustments that are implemented by Medicare and other significant third-party payers as well as the increased scrutiny that has been placed upon the coding and billing of claims. Total operating revenues increased by 1.5 percent in 2010, after decreasing by 3.8 percent and 1.6 percent in 2009 and 2008, respectively. We have been focused on issues affecting utilization and our strategic plan has been to maintain the highest level of advanced medical technology, enhancing relations with existing physicians, and assisting with the recruitment of new physicians to our community. We have also made some decisions to stop providing some service lines. Most notable was our decision in 2009 to close our home health agency and other lesser utilized noncore services. The biggest challenge we face is with

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
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the changing utilization of Hospital services. The following table displays the number of inpatient days of service provided by the Hospital during the past four years and shows the continual decline in the utilization of inpatient services:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Acute care days	9,497	10,371	11,612	13,062
ICU days	634	587	678	602
Skilled days	1,566	1,651	2,009	2,171
Rehab days	951	1,045	1,271	1,776
Nursery days	<u>979</u>	<u>1,054</u>	<u>1,248</u>	<u>1,448</u>
Total inpatient days	<u>13,627</u>	<u>14,708</u>	<u>16,818</u>	<u>19,059</u>

As you can see by the table, inpatient days have declined by 29 percent from 2007 to 2010. The decline in days is also being seen nationally with inpatient volumes declining by 20 percent over the past five years for hospitals in our peer group. In 2009, we consolidated our nursing units to achieve efficiencies in the delivery of care. We have also been active in recruiting physicians to our community and have devoted resources to medical staff relations in an attempt to counteract the decline in patient days. Over the past several years, we have employed select physician practice groups that we feel are necessary to ensure that a full complement of services are available in our community.

The change in operating revenues from year to year has also been impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2010, 2009, and 2008, the Hospital qualified for Medicaid DSH payments in the amounts of \$1,142,871, \$1,049,645, and \$867,994. Eligibility for these payments is determined annually and is based upon numerous factors including the level of services provided to uninsured and Medicaid beneficiaries as compared with other Hospital providers in the State. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients. It is uncertain as to whether we will continue to receive this allocation in future years after the Federal Governments Health Care Reform mandate is implemented in 2014.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital implemented a policy that automatically provides a 20 percent discount to all uninsured patients. The percentage of gross charges that are written off annually due to uninsured discounts, charity care discounts, and bad debts equaled 7.6 percent in 2010. This compares to 7.1 percent in 2009 and 5.8 percent in 2008. Total discounts granted to uninsured or charity care patients equaled \$4,471,905 in 2010 as compared to \$3,891,361 in 2009 and \$3,212,468 in 2008.

Another significant component of operations is salaries and benefits. Total salaries and wages increased by 4.1 percent in 2010, decreased 4.6 percent in 2009, and increased by 8.8 percent in 2008. The increase in salaries in 2010 relates directly to the addition of hospital-owned physician practices as well as the employment of emergency room physicians for a full year in 2010 as compared to a partial year in 2009. In late 2009, the Hospital's emergency room physician

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provider terminated its contract with the Hospital which resulted in the employment of physicians in order to maintain coverage in our emergency room. In 2009, the decrease in salaries relates to the efforts to control hours worked and to the elimination of some noncore services. These decreases were somewhat offset due to physician employment within hospital-owned clinics. Total full-time equivalent employees decreased in 2010 to 404, as compared with 413 and 468 in 2009 and 2008. Employee benefits expense increased by 9.9 percent in 2010, decreased by .1 percent in 2009, and increased by 9.7 percent in 2008. When measured as a percent of total salaries, these costs represent 27.7, 26.3, and 25.1 percent of total salaries in 2010, 2009, and 2008.

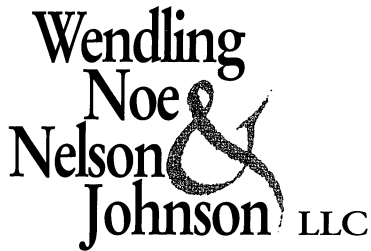
Supplies and other expenses decreased by \$430,509 or 2.6 percent in 2010, decreased by \$1,146,914 or 6.4 percent in 2009, and decreased by \$828,820 or 4.4 percent in 2008. While we have experienced normal inflationary increases in the cost of goods and services each year, we have been very focused on making operational changes to reduce our costs and to become more flexible with changing volumes. Over the past three years we have reduced our use of nonphysician related contract labor with most of this reduction coming in inpatient nursing service areas which have experienced a continued reduction in utilization. We also experienced reductions due to the closure of our home health agency and some other noncore services in 2009.

In January 2008, the Hospital entered into an agreement for emergency room physician coverage which resulted in the emergency room physician group billing for their own services (this was also an item that affected the decrease in net revenues in 2008 as compared to 2007). In exchange for assigning the billing rights to the emergency room provider, the Hospital saw its costs for emergency room coverage decline by \$928,375 in 2008 as compared with 2007. As noted above this agreement was terminated in late 2009 and the Hospital now employs its emergency room physicians.

Depreciation and amortization expenses decreased \$398,540 and \$244,299 in 2010 2009, compared to expense being relatively unchanged for 2008. This expense is expected to continue to decline as capital acquisitions during the past couple of years have been significantly lower than the annual depreciation provision.

Interest expense decreased \$280,510 in 2010, and decreased slightly in 2009 and 2008. The annual decline is due to having lower outstanding principal amounts outstanding and to the advance refunding of all of our outstanding bonds on March 1, 2010, at interest rates that are lower than the bonds refunded.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Newman Regional Health.



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
Derek H. Hart, CPA
John R. Helms, CPA
Darrell D. Loyd, CPA
Eric L. Otting, CPA

Jere Noe, CPA
John E. Wendling, CPA
Gary D. Knoll, CPA
Adam C. Crouch, CPA
Heather R. Eichem, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Newman Memorial County Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), a component unit of Lyon County, Kansas, as of and for the years ended December 31, 2010 and 2009, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Newman Memorial County Hospital d/b/a Newman Regional Health as of December 31, 2010 and 2009, and their respective results of operations, changes in its net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is required supplementary information by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wendling Noe Nelson & Johnson 22C
Topeka, Kansas
April 13, 2011

FINANCIAL STATEMENTS

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
BALANCE SHEETS
December 31,

	2010		2009	
	Hospital	Component unit	Hospital	Component unit
CURRENT ASSETS				
Cash and cash equivalents	\$10,135,312	\$ 2,093,778	\$ 8,276,601	\$ 1,431,797
Short-term investments		1,644,333		1,810,097
Assets limited as to use	141,745		144,035	
Patient accounts receivable, net of estimated uncollectibles of \$1,920,353 in 2010 and \$1,526,000 in 2009	5,882,446	2,419	5,679,371	237,619
Other receivables	27,378	7,472	119,024	265
Inventories	916,295		953,933	
Estimated third-party payor settlements			181,621	
Prepaid expenses	372,775		783,345	55,961
Total current assets	<u>17,475,951</u>	<u>3,748,002</u>	<u>16,137,930</u>	<u>3,535,739</u>
ASSETS LIMITED AS TO USE				
Internally designated for capital acquisitions	5,458,353		5,399,459	
Under bond indenture agreements - held by trustee	1,588,955		2,293,454	
By contributors for scholarships	65,111		53,277	
	7,112,419		7,746,190	
Less amounts required to meet current obligations	141,745		144,035	
	<u>6,970,674</u>	<u>-</u>	<u>7,602,155</u>	<u>-</u>
CAPITAL ASSETS, net	<u>26,101,406</u>	<u>-</u>	<u>29,128,070</u>	<u>8,615</u>
OTHER ASSETS				
Deferred financing costs	240,333		113,535	
Other receivables	220,386		153,766	
	460,719	-	267,301	-
	<u>\$51,008,750</u>	<u>\$ 3,748,002</u>	<u>\$53,135,456</u>	<u>\$ 3,544,354</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2010		2009	
	Hospital	Component unit	Hospital	Component unit
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 955,797	\$ 7,120	\$ 1,077,428	\$ 141,407
Accrued salaries and payroll taxes	811,030		774,975	
Interest payable	32,700		66,534	
Current maturities of long-term debt and capital leases	1,239,424		1,007,522	
Accrued vacation and other employee benefits	1,465,902		1,457,773	
Estimated third-party payor settlements	129,648			
Total current liabilities	<u>4,634,501</u>	<u>7,120</u>	<u>4,384,232</u>	<u>141,407</u>
LONG-TERM DEBT AND CAPITAL LEASES, net of current maturities				
	<u>12,489,691</u>	<u>-</u>	<u>13,960,000</u>	<u>-</u>
ESTIMATED LIABILITY FOR RECEIVABLES SOLD WITH RECOURSE				
	<u>98,000</u>	<u>-</u>	<u>93,000</u>	<u>-</u>
NET ASSETS				
Invested in capital assets - net of related debt	12,372,291		14,160,548	8,615
Restricted				
For debt service	1,588,955		2,293,454	
For specific operating activities	84,688	3,340,963	79,491	565,951
Unrestricted	<u>19,740,624</u>	<u>399,919</u>	<u>18,164,731</u>	<u>2,828,381</u>
	<u>33,786,558</u>	<u>3,740,882</u>	<u>34,698,224</u>	<u>3,402,947</u>
	<u>\$51,008,750</u>	<u>\$ 3,748,002</u>	<u>\$53,135,456</u>	<u>\$ 3,544,354</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
Year ended December 31,

	2010		2009	
	Hospital	Component unit	Hospital	Component unit
Operating revenues				
Net patient service revenue	\$45,077,862	\$ 1,383,017	\$44,208,327	\$ 1,423,689
Other	<u>2,310,575</u>		<u>2,496,656</u>	
Total operating revenues	<u>47,388,437</u>	<u>1,383,017</u>	<u>46,704,983</u>	<u>1,423,689</u>
Operating expenses				
Salaries and wages	21,842,854		20,979,759	
Employee benefits	6,059,408		5,516,056	
Supplies and other expenses	16,405,566	1,283,103	16,836,075	1,279,314
Depreciation and amortization	<u>3,753,732</u>	<u>5,862</u>	<u>4,152,272</u>	<u>7,088</u>
Total operating expenses	<u>48,061,560</u>	<u>1,288,965</u>	<u>47,484,162</u>	<u>1,286,402</u>
Operating income (loss)	<u>(673,123)</u>	<u>94,052</u>	<u>(779,179)</u>	<u>137,287</u>
Nonoperating revenues (expenses)				
Investment income	268,636	206,714	227,656	308,383
Interest expense	(591,902)		(872,412)	
Noncapital grants and contributions	57,417	148,946	51,923	85,460
Other	<u>(22,687)</u>	<u>(111,777)</u>	<u>32,739</u>	<u>(28,520)</u>
Total nonoperating (expenses) revenues	<u>(288,536)</u>	<u>243,883</u>	<u>(560,094)</u>	<u>365,323</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	<u>(961,659)</u>	<u>337,935</u>	<u>(1,339,273)</u>	<u>502,610</u>
Capital grants and contributions	<u>49,993</u>		<u>2,237</u>	
Increase (decrease) in net assets	(911,666)	337,935	(1,337,036)	502,610
Net assets, beginning of year	<u>34,698,224</u>	<u>3,402,947</u>	<u>36,035,260</u>	<u>2,900,337</u>
Net assets, end of year	<u>\$33,786,558</u>	<u>\$ 3,740,882</u>	<u>\$34,698,224</u>	<u>\$ 3,402,947</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF CASH FLOWS
Year ended December 31,

	2010		2009	
	Hospital	Component unit	Hospital	Component unit
Cash flows from operating activities				
Receipts from and on behalf of patients	\$45,191,056	\$ 1,618,217	\$44,102,218	\$ 1,336,673
Payments to or on behalf of employees	(27,858,078)		(26,348,943)	
Payments to suppliers	(16,078,989)	(1,361,429)	(17,600,996)	(1,304,529)
Other receipts and payments	<u>2,335,601</u>		<u>2,657,023</u>	
Net cash provided by operating activities	<u>3,589,590</u>	<u>256,788</u>	<u>2,809,302</u>	<u>32,144</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	57,417	142,696	51,923	86,066
Other	<u>(30,109)</u>	<u>(111,777)</u>	<u>(6,259)</u>	<u>(28,520)</u>
Net cash provided by noncapital financing activities	<u>27,308</u>	<u>30,919</u>	<u>45,664</u>	<u>57,546</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(738,853)		(1,143,852)	(11,233)
Grants and contributions for capital	49,993		2,237	
Proceeds from sale of equipment	1,227	2,753	6,383	
Insurance proceeds			37,124	
Issuance of long-term debt	14,618,648			
Payment of deferred financing costs	(274,671)			
Interest paid on capital related debt	(570,289)		(852,383)	
Principal payments on long-term debt	<u>(15,758,483)</u>		<u>(999,269)</u>	
Net cash provided (used) by capital and related financing activities	<u>(2,672,428)</u>	<u>2,753</u>	<u>(2,949,760)</u>	<u>(11,233)</u>
Cash flows from investing activities				
Change in assets limited as to use	604,119		(96,663)	
Change in short-term investments		307,049		3,274
Interest received	<u>310,122</u>	<u>64,472</u>	<u>285,266</u>	<u>67,794</u>
Net cash provided by investing activities	<u>914,241</u>	<u>371,521</u>	<u>188,603</u>	<u>71,068</u>
Increase in cash and cash equivalents	1,858,711	661,981	93,809	149,525
Cash and cash equivalents at beginning of year	<u>8,276,601</u>	<u>1,431,797</u>	<u>8,182,792</u>	<u>1,282,272</u>
Cash and cash equivalents at end of year	<u>\$10,135,312</u>	<u>\$ 2,093,778</u>	<u>\$ 8,276,601</u>	<u>\$ 1,431,797</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2010		2009	
	Hospital	Component unit	Hospital	Component unit
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (673,123)	\$ 94,052	\$ (779,179)	\$ 137,287
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	3,753,732	5,862	4,152,272	7,088
Provision for bad debts	3,059,080		2,743,606	
Changes in				
Patient accounts receivable	(3,262,155)	235,200	(3,054,989)	(87,016)
Inventories	37,638		(8,105)	
Prepaid expenses	410,570	55,961	(414,308)	(50,299)
Accounts payable and accrued expenses	(77,447)	(134,287)	(195,636)	25,084
Estimated third-party payor settlements	311,269		170,274	
Estimated liability for receivables sold	5,000		35,000	
Other receivables	25,026		160,367	
Net cash provided by operating activities	<u>\$ 3,589,590</u>	<u>\$ 256,788</u>	<u>\$ 2,809,302</u>	<u>\$ 32,144</u>
Supplemental schedule of noncash investing and financing activities				
Net change in unrealized gains and (losses) on investments	\$ 39,822	\$ 271,143	\$ 13,725	\$ 240,589

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) is owned by Lyon County, Kansas, and operated by the Board of Trustees of Newman Memorial County Hospital, a nine-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1922, is a 59-bed, not-for-profit general hospital located in Emporia, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of Lyon County. The component unit discussed in Note A2 is included in the Hospital's reporting entity because of the significance of its operational relationship with the Hospital.

The Hospital has entered into a management agreement with Quorum Health Resources (QHR) for the operation of the Hospital. Under the agreement, QHR agrees to manage the daily operations of the Hospital and to provide the Hospital with the services of a chief executive officer employed by QHR. The Hospital Board of Trustees retains all authority and control over the business, policies, operations, and assets of the Hospital.

2. Component unit

The financial statements include discrete presentation of financial data of the Hospital's component unit which is reported in a separate column to emphasize that it is legally separate from the Hospital. The governing body of this component unit is appointed by the Hospital and can be removed by the Hospital's board at will.

Newman Hospital Regional Health Foundation (the Foundation) is a not-for-profit corporation. The Foundation's purpose is to conduct its operations for the benefit and to carry out the purposes of the Hospital in the betterment and enhancement of the health care services for the citizens of the community. The Hospital is the sole voting member of the Foundation.

The Foundation is the sole voting member of Hand In Hand Homecare and Hospice, Inc., (the Hospice) a not-for-profit member corporation which provides hospice services. The financial data of the Hospice is included as a component unit in the financial statements. On November 1, 2010, the Hospice operations were transferred to a department of the Hospital. The assets held by the Hospice on that date, with the exception of a nominal amount, were transferred to the Foundation and are held for the benefit of Hospice patients.

The component unit's financial statements have been reconfigured to allow for side-by-side columnar presentation with the Hospital's financial statements.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," the Hospital has implemented all GASB pronouncements, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued before November 30, 1989, except those that conflict with GASB pronouncements and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly liquid debt instruments with maturities of three months or less excluding any such amounts included in short-term investments or assets limited as to use.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience by type of payor.

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; and assets restricted by donors for scholarships.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

10. Capital assets

Capital assets, including assets recorded as capital leases and intangible assets, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

11. Cost of borrowing

Interest costs including amortization of deferred financing costs and bond discounts, incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are amortized over the term of the related debt using the interest method.

12. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

13. Net assets

Net assets of the Hospital are classified in three components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net assets" are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note C. "Unrestricted net assets" are remaining net assets that do not meet the definition of "invested in capital assets net of related debt" or "restricted."

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

14. Operating revenues and expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

15. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

16. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges written off by the Hospital is disclosed in Note B.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute, rehabilitation, and swing-bed care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or per day. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Most services rendered on an outpatient basis are paid at prospectively determined rates based on the patient's ambulatory payment classification. The Hospital receives pass-through cost reimbursement for its school of nursing program. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through December 31, 2006.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment. In addition to these payments, the Hospital qualified for Medicaid access payments, as well as Medicaid disproportionate share hospital payments, in both years presented.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 98,605,272	\$ 93,761,995
Deductions from patient service revenue		
Third-party contractual adjustments	(47,314,054)	(44,185,522)
Medicaid DSH and access payments	1,404,957	1,311,731
Provision for bad debts	(3,059,080)	(2,743,606)
Charity care	(2,971,570)	(2,550,615)
Uninsured discounts	(1,500,335)	(1,340,746)
Other discounts and allowances	<u>(87,328)</u>	<u>(44,910)</u>
Net patient service revenue	<u>\$ 45,077,862</u>	<u>\$ 44,208,327</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 40 percent and 10 percent, respectively, of the Hospital's net patient revenue during 2010, and 41 percent and 10 percent, respectively, of the Hospital's net patient service revenue during 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in future years.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE C - ASSETS LIMITED AS TO USE

Under bond indenture agreements - held by trustee

Assets limited as to use by bond indenture agreements are held by a trustee and are stated at fair value. These assets are related to the various revenue bond issues (Note E) and consist of the following:

	<u>2010</u>	<u>2009</u>
Principal and interest sinking fund - Series A, 2001	\$ -	\$ 19,814
Bond reserve fund - Series A, 2001		421,428
Principal and interest sinking fund - Series B, 2001		92,081
Bond reserve fund - Series B, 2001		1,009,590
Principal and interest sinking fund - Series A, 2002		32,139
Bond reserve fund - Series A, 2002		718,402
Principal and interest sinking fund - Series A, 2010	141,745	
Bond reserve fund - Series A, 2010	<u>1,447,210</u>	
	<u>\$ 1,588,955</u>	<u>\$ 2,293,454</u>

Assets are invested by the trustee as follows:

	<u>2010</u>	<u>2009</u>
Money Market Treasury Fund	\$ 145,062	\$ 540,906
U.S. Government and Agency obligations at fair value	1,423,548	1,724,125
Interest receivable	<u>20,345</u>	<u>28,423</u>
	<u>\$ 1,588,955</u>	<u>\$ 2,293,454</u>

Income earned on bond reserve funds may be transferred to the respective principal and interest sinking fund to pay a portion of the interest on the bonds. The bond reserve funds are available for bond principal and interest payments to prevent any default in the payment of principal or interest of the respective bonds or, if not so required, may be used to make the final payments of bond principal and interest.

Internally designated

The Hospital's Board of Trustees has designated certain investments to be used for future capital improvements. These assets, which consist of invested cash and accrued interest, may be used for other purposes by action of the Board of Trustees.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE C - ASSETS LIMITED AS TO USE - Continued

By contributors for scholarships

These assets include funds received from contributors that have been specifically designated for use as nursing scholarships.

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

NOTE D - CAPITAL ASSETS - HOSPITAL

	Balance December 31, 2009	Transfers and additions	Retirements	Balance December 31, 2010
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	612,121			612,121
Buildings	34,288,478		6,370	34,282,108
Medical office building	11,447,225	(3,376)		11,443,849
Fixed equipment	10,159,573	34,818		10,194,391
Future expansion property	762,016	(1,000)		761,016
Major movable equipment	20,990,394	661,366	398,691	21,253,069
Intangibles		25,000		25,000
Totals at historical cost	<u>78,903,320</u>	<u>716,808</u>	<u>405,061</u>	<u>79,215,067</u>
Less accumulated depreciation and amortization for				
Land improvements	374,866	24,181		399,047
Buildings	19,036,780	1,589,453	6,370	20,619,863
Medical office building	4,743,525	430,504		5,174,029
Future expansion property	3,406			3,406
Fixed equipment	7,438,844	388,415		7,827,259
Major movable equipment	18,211,503	1,315,622	398,691	19,128,434
Intangibles		5,555		5,555
Total accumulated depreciation and amortization	<u>49,808,924</u>	<u>3,753,730</u>	<u>405,061</u>	<u>53,157,593</u>
	29,094,396	(3,036,922)		26,057,474
Projects in progress	<u>33,674</u>	<u>10,258</u>		<u>43,932</u>
Capital assets, net	<u>\$ 29,128,070</u>	<u>\$ (3,026,664)</u>	<u>\$ -</u>	<u>\$ 26,101,406</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE D - CAPITAL ASSETS - HOSPITAL - Continued

	Balance December 31, 2008	Transfers and additions	Retirements	Balance December 31, 2009
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	612,121			612,121
Buildings	33,557,637	730,841		34,288,478
Medical office building	11,395,472	51,753		11,447,225
Fixed equipment	9,860,502	299,071		10,159,573
Future expansion property	761,016	1,000		762,016
Major movable equipment	<u>20,813,919</u>	<u>312,213</u>	<u>135,738</u>	<u>20,990,394</u>
Totals at historical cost	<u>77,644,180</u>	<u>1,394,878</u>	<u>135,738</u>	<u>78,903,320</u>
Less accumulated depreciation for				
Land improvements	350,684	24,182		374,866
Buildings	17,420,374	1,616,406		19,036,780
Medical office building	4,313,739	429,786		4,743,525
Future expansion property	3,406			3,406
Fixed equipment	7,056,725	382,119		7,438,844
Major movable equipment	<u>16,641,715</u>	<u>1,699,779</u>	<u>129,991</u>	<u>18,211,503</u>
Total accumulated depreciation	<u>45,786,643</u>	<u>4,152,272</u>	<u>129,991</u>	<u>49,808,924</u>
	31,857,537	(2,757,394)	5,747	29,094,396
Projects in progress	<u>354,157</u>	<u>(320,483)</u>		<u>33,674</u>
Capital assets, net	<u>\$ 32,211,694</u>	<u>\$ (3,077,877)</u>	<u>\$ 5,747</u>	<u>\$ 29,128,070</u>

The Hospital has outstanding commitments to purchase property and equipment of approximately \$500,000 at December 31, 2010.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt inclusive of capital lease obligations consists of the following:

	<u>Date issued</u>	<u>Original amount</u>	<u>Interest rate</u>	<u>Outstanding balance 2010</u>	<u>2009</u>
Lyon County, Kansas, Newman Memorial County Hospital Refunding Revenue Bonds, Series A, 2001, advance refunded in 2010	December 15, 2001	\$ 4,135,000	5.75%	\$ -	\$ 4,135,000
Lyon County, Kansas, Newman Memorial County Hospital Revenue Bonds, Series B, 2001, advance refunded in 2010	December 15, 2001	\$ 10,000,000	4.50% to 4.80%		3,715,000
Lyon County, Kansas, Newman Memorial County Hospital Revenue Bonds, Series A, 2002, advance refunded in 2010	February 1, 2002	\$ 7,040,000	5.25% to 5.75%		7,040,000
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2010-A, due serially through December 1, 2021, net of unamortized premium of \$26,216	March 1, 2010	\$ 14,120,000	2.00% to 4.00%	13,466,216	

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

	Date issued	Original amount	Interest rate	Outstanding balance 2010	2009
Note payable to a bank payable in equal monthly installments of \$14,043, including interest, through March 26, 2013, collateralized by equipment with an amortized cost of \$406,519 at December 31, 2010	March 26, 2010	\$ 468,688	4.90%	\$ 357,726	\$ -
Capital lease obligations, paid off in 2010	Various dates	\$ 494,350	7.75% to 8.75%		77,522
Unamortized deferred refunding loss				13,823,942 (94,827)	14,967,522
Less current maturities of long-term debt and capital leases				13,729,115	14,967,522
Long-term debt and capital leases, net of current maturities				1,239,424	1,007,522
				\$ 12,489,691	\$ 13,960,000

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a summary of changes in long-term debt and capital leases for the year ended December 31, 2010:

	<u>Beginning principal outstanding</u>	<u>Additions to principal</u>	<u>Reduction of principal</u>	<u>Ending principal outstanding</u>
Hospital revenue bonds	\$ 14,890,000	\$ 14,149,961	\$ 15,573,745	\$ 13,466,216
Note payable		468,688	110,962	357,726
Capital leases	<u>77,522</u>	<u></u>	<u>77,522</u>	<u></u>
	<u>\$ 14,967,522</u>	<u>\$ 14,618,649</u>	<u>\$ 15,762,229</u>	<u>\$ 13,823,942</u>

Annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,239,424	\$ 406,494	\$ 1,645,918
2012	1,267,026	377,191	1,644,217
2013	1,166,276	349,455	1,515,731
2014	1,150,000	326,103	1,476,103
2015	1,180,000	297,353	1,477,353
2016 - 2020	6,440,000	938,197	7,378,197
2021 - 2022	<u>1,381,216</u>	<u>52,917</u>	<u>1,434,133</u>
	<u>\$ 13,823,942</u>	<u>\$ 2,747,710</u>	<u>\$ 16,571,652</u>

The Series 2010-A bonds are special obligations of Lyon County Public Building Commission and are payable from the net revenues of the Hospital. The net revenues of the Hospital are irrevocably pledged to the payment of the Series 2010-A bonds and interest thereon.

On March 1, 2010, the Lyon County Public Building Commission issued \$14,120,000 in Revenue Bonds, Series 2010-A, on behalf of the Hospital. The proceeds of the 2010 Bonds used together with other funds were used to refund the Series 2001-A, 2001-B, and 2001-A bonds and to pay costs related to the issuance of the 2010-A bonds.

The current refunding decreased total future debt service requirements of the Hospital by \$2,772,454. This resulted in an economic gain (difference between the present value of the future debt service payments on the old and new debt) of approximately \$2,200,000.

As a result of the current refunding, a deferred refunding loss of \$108,375 was recognized for the difference between book value of the refunded debt and the amount required to extinguish the debt. This loss is netted against long-term debt and capital leases and will be amortized over the term of the related debt.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The indenture agreement for the bonds require the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreements also include certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness and level of fees and rates charged.

NOTE F - DEFINED BENEFIT PENSION PLAN

Plan description. The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-800-275-5737.

Funding policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary for an employee first employed before July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6 percent of covered salary for an employee first employed on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rates established by statute at December 31, 2010 and 2009, are 6.89 percent and 5.79 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2010 and 2009, were \$1,390,539 and \$1,082,556, respectively, equal to the statutory required contributions for each year.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE G - INTEREST EXPENSE

Total interest costs incurred are as follows:

	<u>2010</u>	<u>2009</u>
Total interest incurred	\$ 547,761	\$ 849,046
Amortization of deferred financing costs	34,338	23,366
Amortization of bond premium	(3,746)	
Amortization of deferred refunding loss	<u>13,549</u>	
Interest expense	<u>\$ 591,902</u>	<u>\$ 872,412</u>

NOTE H - RELATED ORGANIZATIONS

Prior to November 1, 2010, the Hospital had entered into contractual arrangements with Hand In Hand Homecare and Hospice, Inc., (a component unit) to provide the Hospice with management and nursing services as well as pharmaceutical supplies. Under the agreements, the Hospital was responsible for providing qualified employees to perform hospice services for the Hospice. In 2010 and 2009, the Hospital recorded approximately \$753,000 and \$843,000, respectively, as other operating revenue for the sale of these services to the Hospice. This agreement was terminated on November 1, 2010 as these services are now provided as a department of the Hospital. At December 31, 2009, amounts receivable from the Hospice for contracted services were \$90,922.

The Hospital contracts for management services, services of certain management personnel and other services with QHR. Under the agreement, QHR is responsible for daily management and administration of the Hospital, with ultimate control over the assets and operations of the Hospital retained by the Hospital's board. For the years ended December 31, 2010 and 2009, the Hospital expensed \$400,086 and \$386,291, respectively, for management services provided by QHR. The Hospital also reimburses QHR for salaries, benefits and expenses of the chief executive officer (Note A1).

NOTE I - LEASE COMMITMENTS

Space is leased in the hospital and the medical office building to various physicians and other medical professionals. Lease income for the years ended December 31, 2010 and 2009, was \$630,498 and \$696,239, respectively. Future minimum lease payments receivable under these agreements as of December 31, 2010, are as follows:

Year ending December 31,	
2011	\$ 435,734
2012	90,316
2013	<u>20,073</u>
	<u>\$ 546,123</u>

The Hospital leases equipment under operating leases with related rentals charged to operations as incurred. Total rent expense for 2010 and 2009 was \$237,482 and \$217,465, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE J - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Statutes also require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Hospital's deposits with financial institutions was \$15,625,458 and the bank balance was \$15,967,669 at December 31, 2010. The bank balance is categorized as follows at December 31, 2010:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	\$ 1,277,000
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>14,690,669</u>
	<u>\$ 15,967,669</u>

NOTE K - CONCENTRATION OF CREDIT RISK

The Hospital is located in Emporia, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2010</u>	<u>2009</u>
Medicare	39%	37%
Medicaid	10	10
Blue Cross	14	15
Commercial insurance	15	14
Workers' compensation	2	3
Self-pay	<u>20</u>	<u>21</u>
	<u>100%</u>	<u>100%</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE L - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$12,000,000 per occurrence with an aggregate amount in any policy year of \$12,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2011, for the policy period from January 1, 2011 to December 31, 2011.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE M - RECEIVABLES SOLD WITH RECOURSE

The Hospital has agreements with local financial institutions under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2010 and 2009 amounted to approximately \$319,000. At December 31, 2010 and 2009, approximately \$467,000 and \$418,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2010 and 2009, of \$98,000 and \$93,000, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE N - SHORT-TERM INVESTMENTS

The component unit's investment securities are carried at fair market value and are held for an indefinite period and, thus, are classified as available for sale. The cost and unrealized gains (losses) of the component unit's short-term investments at December 31, 2010 and 2009, are summarized as follows:

	2010			2009		
	Cost	Gross unrealized gain (loss)	Estimated fair value	Cost	Gross unrealized gain (loss)	Estimated fair value
Common stock						
mutual funds	\$ 320,985	\$ (51)	\$ 320,934	\$1,186,004	\$ (243,753)	\$ 942,251
Common stock	546,899	(375)	546,524			
Fixed income						
mutual funds	305,186	15,026	320,212	428,471	2,056	430,527
U.S. Government						
and Agency						
obligations	49,750	140	49,890			
Corporate bonds	375,107	31,666	406,773	399,929	26,889	426,818
Commodity index						
mutual funds				20,937	(10,436)	10,501
	<u>\$1,597,927</u>	<u>\$ 46,406</u>	<u>\$1,644,333</u>	<u>\$2,035,341</u>	<u>\$ (225,244)</u>	<u>\$1,810,097</u>

NOTE P - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through April 13, 2011, which is the date the financial statements were available to be issued.